



## Memorandum # 45/2002

Commonwealth of Massachusetts | Public Employee Retirement Administration Commission  
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Joseph E. Connarton, *Executive Director*

### MEMORANDUM

TO: All Retirement Boards

FROM: Joseph E. Connarton, Executive Director

RE: Update on Chapter 46 of the Acts of 2002

DATE: November 21, 2002

PERAC Memo #27/2002 outlined Chapter 46 of the Acts of 2002 in general terms. This law brings the Massachusetts Retirement Law into compliance with Federal Limitations on the compensation used to calculate retirement allowances and the dollar amounts of retirement allowances. This provision affects only the highest paid employees and will not apply to most retirement systems and most retirement system members.

However, some systems will be affected and it is important for those systems to take appropriate action for their members who have been or will be affected. After Memo #27/2002 was released, we began implementing a methodology to deal with this law and have worked with several systems to begin this process.

The first step is to determine whether any active or retired member should have been subject to these limitations in the past. The next step is to determine whether any member will be subject to either of these limitations in 2002 or later.

The regulations regarding Sections 401(a)(17) (compensation limit) and 415 (benefit limit) of the Internal Revenue Code are quite complex and can vary under individual circumstances. The compensation limit for 2002 is generally \$200,000 (although it may be higher in certain situations). At inception in 1994, this limit was \$150,000. The general benefit limit for 2002 is \$160,000, but this limit can vary by retirement age, and past limits were lower. These limitations will be indexed each year.

To give us the complete picture of any member who might be affected by the IRS limitations, we ask that you contact us if you have any members who meet the criteria

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below. Because of various “grandfather” provisions under the law, we expect that many of the members may not be subject to limitations.

- Any retiree whose regular compensation in any year was in excess of \$150,000
- Any retiree whose annual retirement allowance is in excess of \$90,000
- Any active member whose rate of regular compensation is in excess of \$200,000
- Any active member whose regular compensation in any year was in excess of \$150,000

Please prepare a list of members meeting the criteria including name, Social Security number, date of birth, date of hire (both with your system and any other Chapter 32 system, if different), total credited service, credited service with your system and regular compensation by year. The retiree information should include this same information as above with amount of service at retirement and the annual allowance at retirement under both options A, and the optional form of benefit chosen (if different). If your system has any members meeting the criteria, you should contact our actuary, Jim Lamenzo at (617) 666-4446 ext. 921.

Finally, the law allows for special funds to be set up to make members hired prior to February 28, 2002 “whole” with respect to these limitations. We recommend that any Board that has any member currently subject to these limitations, or expects any current member will be subject to these limitations in the future, vote to accept the provisions to establish the separate funds referred to in Section 7 of the legislation. You should then notify Mr. Lamenzo with the details of the acceptance.

We realize these rules are quite complex and most boards receiving this memo will have no members subject to these limitations. However, there may be significant consequences for the plan as well as tax consequences for the member if a system fails to meet these sections of the Internal Revenue Code.

We are available to discuss these issues further.